# 2022-2026 Financial Planning and Budget Process:

## General Fund Revenue Budget, Housing Revenue Account Budget, Dedicated Schools Grant, Investment Plan and Treasury Management

North Tyneside Council

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## 1. Introduction

1.1.1. In setting the Budget for the upcoming and future financial years it is crucial that the resource allocations align with the overall vision and strategic priorities of the Elected Mayor and Cabinet. Medium-term financial planning is fundamental in order to ensure that the Authority makes decisions by focussing on strategic priorities and has a clear financial vision and direction for the medium term.

1.1.2. The Authority is legally required to set a balanced Budget for the General Fund for 2021/22 to meet statutory duties and provide services such as social care and environmental services. For the HRA, the Council Taxpayer cannot subsidise those living in social housing and the rents and service charges paid by the tenants cannot be used to fund unrelated Council services. It is also illegal for an authority to budget for a deficit in its HRA or use HRA reserves for General Fund expenditure.

1.1.3. The duties and responsibilities imposed on local authorities through the Local Government Act 2003 are covered in sections 7 and 8, which covers the financial risks, risk assessment and actions necessary to mitigate against the risks posed within the Budget proposals. The Act requires Members and officers to consider the Chief Finance Officer's report on the robustness of the Budget and the adequacy of the Authority's financial reserves.

## 2. Our North Tyneside Plan

2.1.1 The Our North Tyneside Plan 2021-2025 (the Council Plan) sets out the overall vision and policy context within which the Financial Plan and Budget proposals will operate. Since 2015 the Authority has worked to a clear set of priorities through the Our North Tyneside Plan. These priorities have formed the basis of the Framework for COVID-19 Recovery in North Tyneside.

2.1.2 On 23 September 2021, Council approved the updated Our North Tyneside Plan, which was refreshed following the Mayoral election on 6 May 2021 to reflect the policy priorities of the incoming administration and to consider feedback during the internal and external engagement carried out between 2 July 2021 and 15 August 2021.

2.1.3 The Our North Tyneside Plan is structured in five key themes and each theme has a clear set of policy priorities as set out below:

- A thriving North Tyneside
    - We will regenerate the high streets of North Shields and Wallsend, and in addition to the Master Plan for North Shields, we will bring forward Master Plans for Wallsend and Whitley Bay town centre areas. We will also bring investment and improvements to the North West area of the Borough and ensure that regeneration delivers ambition, opportunity and benefits for all our residents.
    - We will bring more good quality jobs to North Tyneside – by helping local businesses to grow and making it attractive for new businesses to set up or relocate in the Borough.
    - We will invest in adult education and to support apprenticeships to make sure people have the right skills for the job.
    - We will keep our libraries and leisure centres open as part of a vibrant range of cultural and sporting activities to support the health and wellbeing of our residents.
    - We will continue to be the destination of choice for visitors through the promotion of North Tyneside's award-winning parks, beaches, festivals and seasonal activities.
    - We will reduce the number of derelict properties across the Borough.
    - We will review how the Authority purchases and contracts for goods and services to maximise value for money, social value and environmental sustainability.

- A family-friendly North Tyneside
    - We will support local schools, making sure all children have access to a high-quality education with opportunities to catch up where needed after the pandemic.
    - We will provide outstanding children's services, events and facilities so North Tyneside is a great place for family life.
    - We will ensure all children are ready for school including through poverty proofing for the school day – giving our kids the best start in life.

- A caring North Tyneside
    - We will provide great care to all who need it, with extra support available all the way through to the end of the pandemic.

  - We will work with the care provision sector to improve the working conditions of care workers.
  - People will be cared for, protected and supported if they become vulnerable, including if they become homeless.
  - We will support local community groups and the essential work they do.
  - We will work to reduce inequality, eliminate discrimination and ensure the social rights of the people of North Tyneside are key to council decision making.

- A secure North Tyneside
  - Council wardens will work in partnership with Northumbria Police to prevent and tackle all forms of antisocial behaviour.
  - We will continue to invest £2m per year in fixing our road and pavements.
  - We will maintain the Council Tax support scheme that cuts bills for thousands of households across North Tyneside.
  - We will tackle health and socio-economic inequalities across the Borough including through our Poverty Intervention Fund to tackle food poverty; and
  - We will provide 5000 affordable homes.

- A green North Tyneside
  - We will keep increasing the amount of waste that can be recycled and introduce food waste collections and deposit return schemes.
  - Council environmental hit squads will crack down on littering.
  - We will secure funding to help low-income households to install low-carbon heating.
  - We will increase opportunities for safe walking and cycling, including providing a segregated cycleway at the coast.
  - We will publish an action plan of the steps we will take and the national investment we will see to make North Tyneside carbon net-zero by 2030.

<u>Performance against the priorities in the Our North Tyneside Plan</u>

2.1.4 Our North Tyneside Plan 2021-2025 was approved on 23rd September 2021 by Council, following the Mayoral Election on 6th May 2021. A set of performance measures are being developed to monitor the progress of the new themes and priorities, which will be reported to Cabinet and Overview and Scrutiny Policy Development Committee in March 2022. An overview of current performance against the key themes for the Our North Tyneside Plan is set out below:

**A thriving North Tyneside**

- The 15 year Ambition for North Tyneside continues to successfully deliver a broad range of regeneration improvements across the Borough. Achievements in the last year include:-
  - Cabinet approved North Shields Masterplan on 25th January 2021 to regenerate the town centre and Fish Quay. Projects include enhancing the appearance of key areas, creating a new transport hub and interchange and town square to host events, markets and performances, improved walking and cycling routes in the town centre, a new cultural quarter based around a traffic calmed Howard Street and riverside walkway linking the town centre to the Fish Quay.
  - The restoration of Grade 2 listed Georgian terrace on Northumberland Square completed and 28 new family homes delivered.

  - The former Swan Hunter site was sold in December 2020.
  - Northern Promenade Phase 1 improvement works completed renovating Rendezvous Café, public toilets and car park.
- Work currently underway include:-
  - Northern Promenade Phase 2 improvements works to complete the refurbishment of the promenade dealing with the original surface treatment and the remains of the former beach huts.
  - Northern Promenade Phase 3 improvement works to link the path at Briar Dene to the St Mary's Island Promenade upgrading the current informal path on the seaside of the Mini Golf Course.
  - A 15 Year Master Plan and investment programme for the Segedunum site is being developed, which will underpin future business planning and will help grow the visitor offer making it a more sustainable entity.
  - Further investment is planned in Killingworth Lake to build on the investment in Flood Defences and broaden and expand the visitor offer by further developing facilities and unlocking additional opportunities and activities. Proposed investment will include a Multi-Use Games Area, a new café opportunity and a health and fitness trail.
  - Further development of the Borough's Wagonways to improve connectivity, take a consistent approach to surfacing and treatment and promote the heritage of the network.
- The COVID-19 pandemic has had a significant impact on both North Tyneside businesses and residents from an economic point of view, mirroring the national picture. The number of employments furloughed on the government's Job Retention Scheme peaked in July 2020, at 28,000 employments, mostly in hospitality, construction, arts, entertainment and recreation, which has reduced to 3,100 employments on furlough at the end of August 2021 following lockdown restrictions easing. The number of Universal Credit claimants living in the Borough increased by 90% following a sharp increase at the beginning of the COVID-19 pandemic. In September 2021, there were 18,837 Universal Credit claimants in North Tyneside.
- The number of registered businesses in North Tyneside has grown every year since 2011. There were 5,345 businesses registered in the Borough at the beginning of 2021. However, during 2021 the number of business start-ups[1] have reduced by 24% at the end of September 2021 compared to September 2020. Conversely job vacancy advertisements have nearly doubled at the end of September 2021 compared to the previous two years. There has been a significant increase in the number of jobs advertised by the NHS during 2021.
- Leisure services were impacted significantly by national lockdowns and local restrictions during the COVID-19 pandemic, but services were delivered in a Covid secure way in line with government guidance. A Click and Collect was expanded across the library services.
- Three beaches in North Tyneside have been recognised by Keep Britain Tidy to retain their Blue Flag beach status, the internationally recognised gold standard for beaches. In addition, King Edwards Bay, Tynemouth Longsands and Whitley Bay have also been awarded Seaside Awards as well for excellence.
- All seven North Tyneside parks have retained their Green Flag awards from Keep Britain Tidy for meeting the highest environmental standards and offering good visitor facilities; Rising Sun Country Park, Benton Quarry, Marden Quarry,

[1] Source - BankSearch Information Consultancy Ltd

Killingworth Lakeside Parks, Wallsend Parks, Northumberland Park, and Chirton and Redburn Dene Parks.

**A family-friendly North Tyneside**

- In North Tyneside, 9 out of 10 children attend a school that is ranked as Good or Outstanding.
- As a result of the impact of the COVID-19 pandemic on examinations, the latest pupil achievement results was last captured in 2019. Headlines are;
  - 72% of children reached a Good Level of Development at the end of the Reception year in 2019, which has improved by 49% since 2013 and is in line with the national average (71.5%).
  - 67% of pupils achieved at least the expected level in reading, writing and mathematics (combined) at key stage 2. This is 2% above the national figure although a one percentage point decrease from 2018.
  - At key stage 4 attainment in 2019 is lower than the national average: 64.1% of students achieved 4 or above in English and Maths compared to the national average of 64.9%.
- At the end of August 2021, 3.55% of 16-17-year olds are classed as NEET (Not in education, employment or training), which is in line with previous years and significantly lower than the North East rate at 5.29%.
- During 2021, the number of Children in Care has increased. There were 315 in September 2021 (75 per 10k population), compared to 294 (70 per 10k) in September 2020, which is above the England average (67 per 10k), but significantly better than the North East average (108 per 10k). There has been an increase in the number of contacts, referrals and Children in Need during 2021.
- Children's services won a national award for Workforce Transformation at the MJ Achievements Awards 2021, recognising excellence in local government services.
- North Tyneside's Youth Justice Service was rated 'outstanding' by HM Inspectorate of Probation. North Tyneside Council is one of only two local authorities judged as 'outstanding' for both social care and youth justice.

**A caring North Tyneside**

- In March 2020, the Authority set up a Local Support Hub with the Good Neighbour Project to support residents identified by the NHS and general practitioners as clinically extremely vulnerable and a higher risk of serious complications from Covid 19. There were 15,000 residents identified as clinically extremely vulnerable and the Local Support Hub, in partnership with VODA, has provided regular support with shopping, prescriptions and welfare calls to 2,000 clinical extremely vulnerable residents advised to "shield". The Local Support Hub was "stood down" in July 2021 in line with the Government's Roadmap for National Lockdown Easing.
- The number of people accepted as priority homeless increased during 2020/21, with 72 people accepted as homeless in 2020/21 compared to 56 during 2019/20, however homeless acceptances do include all rough sleepers who were placed in emergency accommodation throughout the COVID-19 pandemic. The Coronavirus Act 2020 gave social and private tenants more protection from eviction from 29 August 2020. However, the protection for renters concluded at the end of September 2021, which could potentially lead to an increase in residents presenting as homeless.
- On 24 May 2021, Cabinet approved An Inclusive Economy in North Tyneside, providing the framework for a range of projects and activities to make North

Tyneside and its economy inclusive for all by focussing on seven fundamental areas; Education, Employment, Safety, Social equity, Housing, Connections and Environment. The strategy aims to remove the barriers, such as poverty and deprivation, residents with protected characteristics and the impact of the COVID-19 pandemic, which makes it difficult for people to take up employment and training opportunities and empower people with the skills and resources they need to take ownership of their future and secure good jobs with living wages.

**A secure North Tyneside**

- North Tyneside is one of the safest areas of the country to live, work and visit with comparatively low levels of crime. For the majority of residents Environmental Crime and ASB is not an issue, however the perception of feeling safe after dark is lower in some areas of the Borough. The Authority continues to work in partnership with key services represented on the Safer North Tyneside Partnership, which is vital to the Authority's commitment to address community and public safety, crime and disorder and environmental crime issues. In October 2020, Cabinet agreed the new Environmental Crime and Anti-Social Behaviour Policy, which provides a consistent approach and framework to tackle ASB and environmental crime. The policy ensures that any enforcement action is clear, concise, proportionate, consistent and targeted to ensure a responsive, effective and value-added service.
- During 2021, there has been an increase in the number of claimants for the Council Tax Support Scheme, from 17,172 at the end of March 2020 to 17,543 at the end of March 2021.
- The impact of the COVID-19 pandemic on health and socio-economic inequalities in North Tyneside was analysed and provides the evidence base of the development of a multi-agency Health and Wellbeing Strategy.
- In September 2020, Cabinet agreed the approach and initiatives funded by the Poverty Intervention Fund to support key groups impacted by poverty; children, older people and families with children. Initiatives include-
    - Poverty proofing the school day
    - Benefits take-up campaign and support
    - School appropriate clothing
    - Holiday food
- The refreshed Our North Tyneside Council Plan 2021-2025 increased the ambitious target to create 4,000 affordable homes to 5,000 new homes. At the end of September 2021, 1,697 affordable homes have been completed so far since 2014/15.

**A green North Tyneside**

- During the COVID-19 pandemic, waste collection performance was challenging as more residents have spent more time at home, which has led to an increase in the amount of waste collected by the Authority, rather than through commercial collections from businesses and offices. A large number of residents have worked from home and some businesses have had to stop operating during periods of national lockdown and local restrictions. During 2020/21, the amount of waste collected boroughwide reduced by 7,000 tonnes compared to the previous year and the amount of waste collected per household increased by 9%. The proportion of reuse, recycling and composting dropped slightly by 1% to 38% and amount of waste sent to landfill in year was 9%.

- Consultation on a scheme to create a continuous segregated cycle lane along the length of the North Tyneside Coast between St Mary's Lighthouse and North Shields Fish Quay/Town Centre is underway following a successful pilot scheme during 2020.
- Almost £9m funding secured to provide an additional 14 kilometres of cycle routes and improve active travel and public transport.
- At the end of September 2021, the Authority's carbon footprint has decreased by 52% since 2010/11, ahead of the target to reduce carbon by 50% by 2023. In July 2019 North Tyneside Council declared a Climate Emergency and set the target to become carbon neutral by 2050, however this target was brought forward in the refreshed Our North Tyneside Council Plan to make North Tyneside carbon net-zero by 2030. A Climate Emergency Board has been established to oversee a wide range of projects. Project highlights include:-
    - Council approval for over £4.3m funding to convert almost 20,000 street lights to energy efficient LED, which will complete the street lighting LED programme.
    - The refurbishment of Killingworth Depot to deliver a fabric first approach, installation of efficient electrical and mechanical equipment, and installation of low carbon heating. Funding secured from the North East Local Enterprise Partnership Energy Accelerator programme for the development of a Heat Network feasibility study for the Killingworth depot site and surrounding commercial, industrial and housing units.
    - £4.3m funding secured from the Green Homes Grant Local Delivery Scheme to install low carbon heating, energy efficiency measures and renewable energy systems in over 500 homes with low-household incomes.
    - £3.2m funding secured from the Public Sector Decarbonisation Grant to install low carbon heating and energy efficiency measures in four of the Authority's most carbon intensive buildings.
    - Cabinet approved a revised North Tyneside Transport Strategy which aligned to the new Our North Tyneside Plan carbon net-zero 2030 policy ambition.
    - The Authority has developed its first ever Zero Emission Vehicles (ZEV) Strategy and this is presented to Cabinet for approval on 29 November 2021.
    - Increased the number of electric and ultra-low emission vehicles in the Authority's fleet. Secured funding for, and completed, an independent review of the Authority's fleet and options for decarbonisation. Trialled the use of an electric refuse collection vehicle.
    - An increased number of energy efficiency and solar PV installations have been built into the draft Housing Capital Plan to be considered as part of the 2022-2026 Financial Planning and Budget Process.
    - Securing funding to develop a North East Community Forest across North Tyneside, South Tyneside, Newcastle, Gateshead, Sunderland and Durham. This will provide 500 hectares of new woodland and canopy cover across the community forest area by 2025.

## 3. General Fund

3.1 Council Tax Support

3.1.1 In 2013/14, the national Council Tax Benefit scheme came to an end, and Local Council Tax Support was introduced in its place. At the same time, funding was transferred into the Settlement Funding Assessment (SFA) (comprising Revenue Support Grant and Business Rates) after being cut by over 10%. As this funding is not separately ring-fenced within the SFA, it has effectively been cut at the same rate as the Authority's SFA has been cut for each subsequent year.

3.1.2 This has put significant additional strain onto the General Fund Budget and resulted in the Authority, as well as many other local authorities, seeking to collect some Council Tax from working age people who previously received 100% Council Tax Benefit.

3.1.3 Under national rules pensioners are protected from any capping of maximum awards to ensure they are not subject to a reduction in Local Council Tax Support and may still be awarded reductions of up to 100% of their Council Tax liability.

3.1.4 Council Tax Support under the current scheme for working age claimants is capped at 85% of an individual's Council Tax liability, meaning that working age people are charged 15% of their Council Tax before they receive Council Tax Support. There is no proposed change to the cap being considered for 2022/23.

3.1.5 It is noted that COVID-19 led to an increase in the numbers of claimants of Local Council Tax Support. This is a direct cost to the Authority as it ultimately reduces the Council Tax base as Council Tax Support is applied as a discount.

3.1.6 The financial risks the Authority is currently facing is such that there are no changes proposed to increase the cap in the current scheme. Options have been considered, however, as to how the Authority can provide further support to those residents who continue to be affected by the Pandemic. Currently working age claims can only be backdated 4 weeks where a claimant delays making a claim and has good cause for delaying; Cabinet is proposing that this is increased to 26 weeks to ensure that working age claimants do not lose out on entitlement from 2022/23; this will help some of our residents secure the support they need.

3.2 Business Rates

3.2.1 The level of Business Rates is set by the Government and is based on the rateable value of non-domestic properties across North Tyneside. Prior to April 2013 the Authority had no direct financial interest in the collection of Business Rates and acted purely as an agent of the Government. However, the Authority currently retains 49% of the business rates it collects and pays the other 51% over to the Government (50%) and the Tyne and Wear Fire and Rescue Authority (1%). This was due to the introduction of the Business Rate Retention Scheme. This resulted in a direct financial incentive to maximise the amount of business rates collected in North Tyneside.

3.2.2 A number of announcements were made as part of the October Spending review that have a direct impact on Business Rates for 2022/23 and beyond and are seen as measures needed to continue to support business recovery from the impact of the COVID-19 pandemic. These include:

- The planned increase in the business rates multiplier has been cancelled. Freezing the multiplier in 2022-23 is worth £4.6bn over the next five years nationally (about £900m each year). The multiplier was due to be increased by 3.1%, in line with the September increase in the Consumer Prices Index (CPI) but instead the small business multiplier will remain at 49.9p in 2022/23. Local authorities will receive full compensation in the usual way, i.e. via a Section 31 Grant.

- There will be a 50% discount for retail, hospitality and leisure sectors (up to a maximum of £110,000) in 2022/23. Again, local authorities will be fully funded for the additional costs of the discount.

- Other reforms to business rates were announced by the Chancellor, including more frequent revaluations (from 2023), as expected, and investment reliefs to encourage green investment and premises improvements (any increase in rates payable delayed for 12 months) (worth an estimated £750m nationally).

These announcements should have no direct effect on the financial planning assumptions for the Authority as any loss of income will be fully compensated for.

3.2.3 The Authority continues to carry the risk that business rates could be impacted in the event of business closures or increases in the number of properties claiming empty property relief where businesses either cease trading or seek to take advantage of changed working patterns to reduce property costs. However, on a positive note, the Authority has not seen a material reduction in the Rateable value, nor a surge in appeals against rateable values to date.

# 4. Housing Revenue Account (HRA)

## 4.1 Introduction

4.1.1 The Housing Revenue Account is required to produce a 30-year Business Plan, however, a four-year Medium-Term Financial Plan (MTFP) for revenue has been produced which brings this in line with the same MTFP period as the General Fund.

4.1.2 Whilst the current economic situation presents significant challenges, the Authority is still able to produce an MTFP for the HRA, which enables over £294m of revenue spend over the next 4 years to manage and maintain the housing stock and meet the aspirations of Cabinet and tenants.

4.1.3 As well as protecting the significant investment in the service delivered via revenue and the MTFP, the HRA also represents a significant element of the Authority's overall Investment Plan. In line with the key priorities of Cabinet outlined above, over the next 5 years a total of £121.717m has been provided to enable the existing stock to be maintained at the Decent Homes Standard. In addition, in line with the Mayor and Cabinet's Affordable Homes pledges, a total of £29.930m has been identified to fund the new build schemes identified in the Affordable Homes Plan.

4.1.4 The proposals to resource the revised MTFP and 30-year HRA Business Plan will be subject to the full engagement process, and consultation over the choices available to ensure the objectives can be achieved.

## 4.2 Background and Policy Context

4.2.1 The Authority is responsible for managing just under 14,500 homes. Rents and service charges provide most of the resources available to the HRA, which is then used to fund the management and maintenance of the housing stock. This income and expenditure are accounted for in a ring-fenced account as required by law under the Local Government and Housing Act 1989. Although accounted for separately, the HRA forms an intrinsic part of the Authority's overall vision and Council Plan, and this report sets the context within which the HRA Financial Plan and Budget proposals are set.

4.2.2 The Authority is still facing unprecedented times as it continues to transition from recovery to a 'business as usual' state following the COVID-19 pandemic. In line with all areas of operation of services housing has had to adapt and adjust to survive and continue providing key services to tenants. To date in 2021/22 the impact in cost and service delivery terms within housing has been less severe than last year, naturally due to the easing of lockdown, and the gradual return of more staff to the workplace. The budget proposals for 2022/23, where relevant, have sought to ensure that the impact of COVID-19 is minimised, and that resources are identified to cover increased supply chain costs where there may be material shortages and delays.

4.2.3 The Authority is still facing the impact of the continued roll-out of Universal Credit and other welfare reforms, which brings greater pressure on tenants in terms of managing their finances, and on the Authority's income collection teams who have a responsibility to try and help sustain tenancies, and help tenants manage their money so that they do not end up in financial hardship or significant arrears, all of which could have a direct impact on the HRA, and the quality of the services that are then provided.

4.2.4 Following the removal of the HRA debt cap in 2018, it is the responsibility of the Authority to determine the level of any unsupported borrowing it wishes to undertake to fund newbuild or decent homes work, in line with the Prudential Code, which means applying the key tests to ensure that any debt taken on is "prudent, affordable and sustainable". The approach to debt management is reviewed yearly and is discussed in more detail below.

4.2.5 April 2019 saw the Housing Property and Construction Service established within Environment, Housing and Leisure. The first year of operation was highly successful and saw circa £40m of works delivered across a range of areas across all the Authority's housing stock and public buildings portfolio. The benefits identified from the benefits realisation process were baked into the HRA Business Plan in previous years and continue to support core services and adding value by funding initiatives such as the new tenant priorities budget within Housing Repairs.

4.2.6 2020/21 and the COVID-19 Pandemic created new challenges for the Housing Property and Construction Service, as it was embarking on an even more ambitious programme to deliver nearly £60m of works in 2020/21. As the Authority emerged from the first lockdown period, services re-started looking at new COVID-secure ways of working in order to keep everybody safe, and certain types of works had to be deferred because of social distancing. In financial terms, every scheme is looked at individually to see what safety and social-distancing measures are required. These issues have been considered in the sums provided to fund the Authority's Housing Asset Management Plan. As well as COVID-19 considerations, a full review of the Asset Management Plan has been undertaken, and further work is ongoing to continue to improve, and create a service that best meets the ongoing needs of tenants and residents whilst delivering greater efficiency and improved value for money.

4.2.7 All of these challenges continue to be considered as part of the updating of the 30-year plan which aims to ensure the long-term viability of the HRA in line with the policy direction of the Mayor and Cabinet and the needs of tenants. For the purposes of the current Financial Planning and Budget process, a four-year revenue plan has been developed in line with the approach adopted for the General Fund. Cabinet is advised that projections beyond 2022/23 are indicative at this stage. A five-year timeframe is being proposed for the Housing Capital Investment Plan once again in line with the 2022-27 General Fund Investment Plan.

4.2.8 HRA tenants will be consulted on these initial proposals, and the final HRA Budget will be presented to Cabinet in February 2021. At that meeting in February, Cabinet will be asked to approve the HRA Business Plan and Budget for 2022/23, including the housing rent, garage rent and service charge changes along with the Housing Capital Investment Plan.

**4.3 Key Objectives and headline assumptions for the Housing Service**

4.3.1 The over-riding objectives for the housing service are in line with the agreed Housing Strategy and, as far as possible within financial constraints, are to:

1. Ensure the application of the principles of economy, efficiency, and effectiveness;
2. Continue to invest in the existing stock to maintain the Decent Homes Standard;
3. Maintain and develop effective engagement with tenants;
4. Continually monitor the impact of changes such as Universal Credit and other welfare reform on tenants and ensure they have the appropriate support;
5. Work with private landlords to refurbish stock where appropriate;
6. Undertake environmental improvements to estates to ensure that they are clean and safe;
7. Support the delivery of Affordable Homes across the Borough;
8. Specifically increase the delivery of new-build homes where practicable;
9. Create sustainable tenancies and maximise rental income collection;
10. Undertake sustainability measures across the housing stock as appropriate and affordable to help address the Climate Change Emergency;
11. Continue to invest in the Authority’s Apprenticeship programme to ensure that it develops the workforce to sustain and improve housing services in the future;
12. Continue to support the Working Roots programme to give some disadvantaged young people the chance to learn new skills, gain meaningful qualifications, and in some cases embark on a career.

4.3.2 The key headlines for the HRA Budget for 2022/23 are as follows:

1. <u>Rent and Service Charges</u>

A) Rent Policy - April 2020 saw the re-introduction of rent increases based on the Consumer Prices Index (CPI) plus 1% for at least the next 5 years. The baseline for 2022/23 is the CPI rate as of September 2021 which was 3.1%. Hence, the rent increase proposed for 2022/23, to be in line with Government policy, is 4.1%. The CPI rate had been steadily falling since the start of the COVID-19 Pandemic and hit a low in August 2020 of 0.2% following the withdrawal of the “Eat Out to Help Out” scheme which dampened the inflation rate. Since then, the inflation rate has started to steadily increase, with experts predicting further increases with the potential for inflation to reach between 4% and 5% by the end of this year. The impact of this on the HRA Business Plan is to increase forecast rental income, however it also brings with it the spectre of increased costs as well.

The package of measures within these budget proposals should be sufficient to ensure the HRA has a balanced plan over 30 years, and be able to support the Cabinet and Mayoral priorities of:

- a commitment to deliver more affordable housing by increasing the resources available for the HRA element of the Affordable Homes strategy;
- Maintaining the tenants’ priorities budget within repairs to focus on key areas of need, those initial areas of focus being pest control, empty homes standard and property health checks;
- Strengthening the resources available to support tenants in coping with the changes arising from welfare reform and the continued roll-out of Universal Credit;
- Ensuring that existing housing stock is maintained to the Decent Homes Standard;

- Identifying resources to undertake sustainability measures across the housing stock to start to tackle the Climate Change Emergency declared by the Authority;
- Continue to support the apprenticeship programme.

B) It is proposed to increase service charges for 2022/23 in line with the CPI element of the rent increase. For most service charges for 2022/23 the increase will be 3.1%.

C) A review of the garage letting process was concluded and implemented in 2019/20 which resulted in a phased approach over two years to harmonise garage rents. This exercise was completed this year, so for 2022/23 it is recommended that garage rents will increase in line with service charges being based on CPI which will see a 3.1% increase.

D) The Authority will continue to move to target rent when properties become empty.

E) An initial review of service charges attached to North Tyneside Living schemes has been undertaken, and service charges attached to those schemes will be increased in line with CPI i.e. 3.1%. However, as the schemes continue to become established and fully operational, the Authority is endeavouring to gather more accurate trend data, and ensure that service charges reflect actual costs as closely as possible.

F) The Authority also continues to monitor the impact of welfare reform changes. Service charges on affordable rent properties are not exempt, as the 80% of market rent calculation includes any service charges. The importance of ensuring that tenants are kept fully informed of the requirements of the new scheme is fully recognised and ensuring that they are supported in managing the impact of change. In North Tyneside Universal Credit numbers continue to increase, at the end of March 2021 there were 3,306 tenants on Universal Credit with arrears totalling £2.689m, by the beginning of November this number had risen to 3,716 with total arrears of £2.947m. The Authority had already allocated additional resources to support those tenants affected by the changes in previous year’s Budgets. The COVID-19 Pandemic had delayed recruitment, but most posts have now been filled, and tenants are getting more of the support they need. This has been evidenced by a slow-down in the rate at which arrears have been increasing, albeit they are still increasing overall. Members will continue to be updated of any significant further welfare reform changes as they become clear.

G) The policy of tenants’ weekly rent being spread over 52 weeks will continue, although for those residents that wish to continue paying over 50 weeks this option is available.

## 2. The Housing Capital Investment Plan 2022-2027

The Housing Capital Investment Plan has been refreshed based on the revised Asset Management Strategy, along with revised sums identified to fund new build proposals. The key assumptions that have been made in developing the Housing Capital Investment Plan for 2022-2027 are as follows:

A) Acknowledging the impact of the COVID-19 pandemic, recognising that there will need to be additional consideration given to ensure all COVID-secure measures are followed in the workplace and out on site, which may require different welfare arrangements depending on the site, additional PPE, sanitisers etc.

B) Review of Housing Investment Plan spend based on maintaining Decent Homes, continuation of a fencing programme and other core items included in the refreshed Asset Management Plan, would see core spend of £121.717m over the next 5 years 2022-27, plus new build spend of £29.930m based on continuing the existing approach to HRA new build within Cabinet's overall Affordable Homes Strategy; and

C) Spend for 2022/23 of £26.724m including £3.930m for the continuation of a new build / conversion / acquisition council house programme.

These figures are based on maintaining the key principles of Cabinet's existing approach to debt management and self-financing.

3. Housing Repairs Budget 2022/23

Cabinet was presented two years ago with a proposal to create a Tenant Priorities budget from some of the savings realised from the creation of the Housing Property and Construction Service. A significant amount of work was undertaken to look at tenant priorities, and a list of options for prioritising resource allocation was put forward, and for 2019/20 and 2020/21 the following were given priority:

- Improving the Empty Homes standard.
- Free pest control service for tenants, and
- Property health checks i.e. scheduled maintenance visits as opposed to reactive ones to properties identified as high maintenance.

These priorities were extended for a second year due to the delays caused by the pandemic. In the light of the positive reaction of tenants to the property health-checks and the improved Empty Homes Standard, it is recommended that these areas remain the focus of the tenant priorities budget for 2022/23, as the objectives remain key to meeting tenants' aspirations.

4. ICT Systems Review

2021/22 saw the start of a major exercise to fundamentally review all the Housing ICT systems currently in use across the service. Northgate has never been fully reviewed to assess its ongoing suitability and whether it needs to be replaced or upgraded. The original contract for the Accuserv system used to support HPC's activity is coming to an end and so it was critical that this was also reviewed. A key aim is to test the market and get as close as possible to a "unified" system that could meet most of the service's needs. This is a major project requiring dedicated resources along with a proper governance process to ensure success. Revenue and capital resources have been identified and put into the HRA Plan for a 4-year period starting in 2021-22 to enable this work to be carried out. The figures will be revised and confirmed as appropriate as project plans and the tendering process commences and develops.

5. HRA Unallocated Working Balances

Sustain unallocated working HRA balances at a minimum of £2.5m at this stage.

6. Right to Buy (RTB) Sales

RTB sales have increased significantly since the start of self-financing at the end of 2011/12.

**Table 1: Right to Buy Sales 2011/12 to date**

| | |
|---|---|
| 2011/12 | 30 |
| 2012/13 | 85 |
| 2013/14 | 122 |
| 2014/15 | 100 |
| 2015/16 | 135 |
| 2016/17 | 136 |
| 2017/18 | 158 |
| 2018/19 | 135 |
| 2019/20 | 120 |
| 2020/21 | 115 |
| 2021/22 to-date (Sept) | 77 |

As part of changes the Government introduced in 2012/13, the Authority signed an agreement that allows RTB receipts above the levels assumed as part of self-financing to be retained if they are used to fund new build homes at a 30% contribution rate within 3 years. In the last 12 months these rules have been relaxed slightly to allow us up to 5 years to spend the money, and to use the funding at an intervention rate of up to 40%. This agreement has seen an additional £6.933m of Capital Receipts retained to the end of 2020/21, which has helped deliver £21.015m of new build schemes. The trend in RTB sales is reflected in the 2022/23 Business Plan profile for stock numbers.

7. Treasury Management Strategy (TMS) and the HRA Borrowing “Cap”

The HRA is an integral part of the Authority’s TMS. When self-financing was introduced in 2012/13 all stock-retaining authorities had to decide on their approach to debt. Each had to either take on additional debt or have debt paid off, based on the assessed ability of the level of debt that their business plans could be expected to manage. For the Authority, this meant borrowing £128m of loans from the Public Works Loan Board to pay the allocated share of debt to the Treasury. Each authority was allocated a “cap” representing the maximum amount of debt that could be held by the HRA. This Authority was one of only a handful nationally where the debt held was above the “cap.” Actual debt was £290.825m compared to the calculated cap of £270.585m but the Government “flexed” the cap to match the actual position.

All authorities were in different positions regarding actual debt held and the cap; most were below but many were at or near the cap which restricted their options. Each had to decide what debt and risk approach they would take to both fund investment in existing stock and potentially any new build opportunities. Cabinet agreed at this point to set aside money where possible to repay debt each year, to bring the overall debt holdings down below the cap. The recommended strategy was not to seek to repay all debt held over the initial 30 years. This approach enabled revenue surpluses to be created, which have been utilised to fund a programme of HRA new build spend totalling £21.015m to the end of 2020/21. By the end of March 2021, the Authority's actual HRA debt stood at £249.673m compared to the £290.825m "cap", and by March 2022 it is anticipated that the debt will drop further to £244.673m. The Authority has already created some headroom through the prudent approach agreed to its Treasury Management strategy.

The 2022/23 draft Budget proposals are based on the existing Cabinet agreed policy approach to debt. Last year there was a slight adjustment to the approach, as the rate at which debt is repaid was slowed down, in order to help fund a package of savings that countered the loss of an estimated £45m of rental income due to the low rate of CPI in September 2020. Based on the current approach to debt management it is estimated that up to a further £102m of debt could be repaid over the next 30 years, compared to £105m in the base model based on an assumed target 3% rent increase per annum.

The table below shows the reduction in HRA debt included in the current proposals.

**Table 2 – Impact on HRA Debt 2022-52 of Revised Business Plan**

| Description | Debt Movement |
|---|---|
| | £m |
| Opening Self-Financing Debt | 290.825 |
| Opening HRA Debt 01/04/2022 | 244.673 |
| Closing HRA Debt after 30 Years | 142.226 |
| Debt Repaid over 30 years | 102.447 |
| Debt Repaid from start of SF | 188.378 |

## 8. Self-Financing and Depreciation

From 2017/18 the Government has required that all local authorities calculate a true depreciation charge as an actual cost to the HRA. The approach developed by this Authority calculates a simple depreciation charge based on splitting investment works across several component elements of a building and linking that to the way the Authority's properties are valued using several "beacon properties" i.e. a sample of properties which represent the different standard types of properties held by the Authority. The level of depreciation calculated using this method will be able to be contained within the amounts currently budgeted in the 30-year HRA Business Plan, and these sums are allocated directly to fund the Housing Capital Investment Plan.

## 4.4 HRA Summary Financial Plans

4.4.1 In summary, the HRA Business Plan modelled to create the draft proposals has the following key assumptions, most of which are based upon continuing with current Mayoral and Cabinet policy priorities:

- Additional rental income of CPI plus 1%, with a proposed increase for 2022/23 of 4.1%, with a long-term assumption based on CPI target equivalent to 3% per year.
- Garage rent and service charges will increase in line with CPI increases of 3.1% for 2022/23.
- The Tenant Priorities budget created last year will be maintained, particularly as much of the agreed work was halted during 2020/21 by the pandemic, and there has been a positive reaction to the approach being taken by tenants.
- Resources identified over the next 3 years to complete the full review of current ICT systems and produce an options appraisal of future needs for the service, and then procure and implement the agreed best solution.
- Continue supporting the Authority's Apprenticeship programme and the Working Roots scheme.
- The base Capital Investment Plan has been refreshed based on an update of the Asset Management Plan and includes continuation of a new build programme in line with Mayoral priorities and the Affordable Homes Plan.
- Resources have also been identified to tackle the Climate Change Emergency declared by the Authority, to undertake a range of sustainable measures across the housing stock to reduce its carbon footprint.

4.4.2 The updated HRA Business Plan for 2022-27 contains nearly £30m to support the HRA new build programme over the next 5 years, whilst continuing to repay some debt. The impact of COVID-19 Pandemic and Brexit on interest rates and borrowing rates continues to be monitored to assess any potential impact on the HRA Business Plan. It is prudent that Cabinet maintains its borrowing policy at this stage, until more surety can be gained over future economic trends.

4.4.3 Appendix F shows the revised four-year HRA Business Plan 2022-26, and Appendix G splits those changes between Pressures and Growth, Efficiencies and Reserves and Contingencies. The HRA Business Plan for 2022-52 (available as a background paper) starts with an assessment of the budget monitoring position as of 30 September 2021, and the impact on HRA balances for this year. At that point, as is being reported to this meeting of Cabinet, the HRA is predicting an underspend of £0.381m against Budget for 2021/22, due to a combination of improved rental income forecasts and savings against Bad Debt Provision and Management Contingency. The impact of COVID-19 Pandemic whilst still being felt is not forecast to have anywhere near as significant a budgetary impact in 2021/22 as was experienced the previous year. This means that the opening balances feeding into the Business Plan as of 31 March 2022 are forecast to be £3.440m as shown in Appendix F.

The five-year Housing Investment Plan 2022-2027 is included within Appendix B (ii).

Appendix G also shows a further breakdown of the movement on Reserves and Contingencies which includes a contribution from reserves of £0.371m for 2022/23. It is not proposed to adjust contingency budgets in 2022/23 following a review and revision of the levels held for the 2021/22 budget, with separate provision made for inflation and pay awards of £0.663m for 2022/23 (including provision for increased material and subcontractor costs).

## 5. Dedicated Schools Grant (DSG)

### 5.1 Background

5.1.1 The Dedicated Schools Grant (DSG) can only be used for the purposes of the Schools Budget as defined in the School and Early Years Finance Regulations 2018. The DSG funds those delegated budgets allocated to individual schools, nurseries (and other early years settings) and, high needs provision including special schools and alternative provision.

5.1.2 In September 2017, the Department for Education (DfE) published the response to the stage 2 National Funding Formula (NFF) consultation and confirmed the details of the NFF for the Schools block. In 2022/23, the DSG will continue to be comprised of four blocks covering: Schools, High Needs, Early Years and the Central School Services. Each of the four blocks has their own funding formula.

The DfE initially proposed a two-year transition period (2018/19 and 2019/20) where local authorities would continue to set a local formula to distribute funding to individual schools. However, in July 2018, as a result of the significant movement witnessed towards the NFF, the Government confirmed that these transitional arrangements would continue into at least 2020/21. In 2019, the DfE confirmed that the transitional arrangements will continue into 2020/21 and probably 2021/22, with the expected move to “hard” NFF being likely in 2022/23. This has now been pushed back a further year with the “hard” NFF now expected in 2023/24.

5.1.3 In 2022/23, as in 2019/20 to 2021/22, the Authority will receive its DSG funding based on the DfE National Funding Formula. In July 2021, the DfE published indicative allocations under the NFF at school level using October 2020 census data. This shows the funding level for each mainstream school based on the NFF using the 2022/23 Primary Unit of Funding (PUF) and Secondary Unit of Funding (SUF) with October 2020 pupil numbers.

This information is for planning purposes only as local formulae used by each local authority can still vary from the NFF within the guidance issued by the DfE. The DSG allocation to the Authority for 2022/23 will be published in December 2021 using the October 2021 census results.

5.1.4 The Schools NFF for 2022/23 will continue to have the same factors as at present. The Government announced its intention to implement the formula to address historic underfunding and move to a system where funding is based on need. The key aspects of the formula for 2022/23 are:

- The minimum per pupil funding levels will be set at Primary £4,265, Key Stage 3 £5,321 and Key Stage 4 £5,831;
- The funding floor will be set at 2% per pupil, in line with forecast inflation to protect per pupil allocations for all schools in real terms. This minimum increase in 2022/23 allocations will be based on the individual school’s NFF allocation in 2021/22;
- Schools that are attracting their core NFF allocations will benefit from an average increase of 3% to the formula’s core factors; and
- Growth funding will be based on the same methodology as in 2021/22, with the same transitional protection ensuring that no authority whose growth funding is unwinding will lose more than 0.5% of its 2021/22 Schools block allocation.

In addition, two important restrictions will continue:

- Local authorities will continue to set a Minimum Funding Guarantee in local formulae, which in 2022/23 must be between +0.5% and +2.00%. This allows them to mirror the real terms protection in the NFF, which is the Government's expectation; and
- Local authorities can only transfer up to 0.5% of their Schools block to other blocks of the DSG, with their Schools Forum approval. To transfer more than this, or any amount without their Schools Forum approval, they will have to make a request to the DfE, even if the same amount was agreed in the past two years.

5.1.5 The spending Review 21 confirmed another £4.7bn for core schools' budget nationally by 2024-25, which brings a suggested cash increase of £1,500 per pupil by 2024-25 compared to the 2019-20 Spending Review. Details of expressly what this mean for schools for 2022/23 remains outstanding so the following paragraphs are indicative based on current information.

5.1.6 The North Tyneside illustrative allocation for the Schools block, Central Schools Services block and High Needs block in 2022/23 (using census 2020 i.e. static pupil numbers) is shown below. The Authority has yet to receive confirmation of the Early Years block allocation; therefore, this has not been adjusted and remains at the same funding level as received in 2021/22 until further information is received from the DfE:

**Table 3: Indicative Dedicated Schools Grant funding allocation 2022/23**

| | 2022/23 Schools block units of funding (£'s) | School Block | CSS Block | Early Years Block | High Needs Block | Total Indicative DSG 2022/23 |
|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m |
| Primary per pupil rate (£) | £4,539 | | | | | |
| Secondary per pupil rate (£) | £5,988 | | | | | |
| **Indicative DSG Settlement** | | **140.0** | **1.7** | **13.9** | **28.8** | **184.4** |

5.2 Schools Block

5.2.1 Officers from the Authority have been working with the Schools Finance Sub-group to review the Authority's Local Funding Formula (LFF) for schools and the potential impact of transferring 0.5% from Schools Block to High Needs Block. The planned approach was presented to Schools Forum on 22 September 2021. At this meeting, Schools Forum agreed to consult with all schools on this option.

5.2.2 At the time of writing this report a consultation is underway with all schools and will be concluded on 18 November 2020. The outcome of the consultation will be presented to Schools Forum at its meeting on 24 November 2021. The consultation results will be shared reviewed by the Cabinet Member for Finance and Resources, Cabinet Member for Children Young People and Learning, the Director of Commissioning & Asset

Management and the Director of Resources as per recommendation in paragraph 1.2 of the cover report to this Annex.

5.3 High Needs Block

5.3.1 In common with most authorities, North Tyneside Council is continuing to see rising pressures within provision for children with special educational needs. This is due to the increasing complexity of the needs of children and young people in addition to general rising cost levels mainly as a result of pay inflation.

The number of children with an Education Health and Care Plan (EHCP) continues to increase and there are a rising number of pupils with Autism Spectrum Disorder (ASD) as their primary need. The forecast outturn for high needs as at October 2021 is estimated at £12.641m.

5.3.2 An initial High Needs Strategic Plan was agreed by Schools Forum in May 2018, outlining a work plan to review the Authority's current special educational needs offer to ensure it meets needs appropriately at a sustainable cost.

In June 2021 the Authority commenced working with Education and Skills Funding Agency (ESFA) on a High Needs deficit recovery plan and update to the High Needs Strategic Plan. This plan is still being worked on, with a target of reducing the deficit within five years.

5.4 Early Years Block

5.4.1 The DfE has not yet published the expected value of the Early Years block funding. To provide illustrative values the 2021/22 actual funding allocation of £13.9m has been assumed.

5.4.2 Local authorities are required to use a locally determined, transparent formula to set the funding rates for the Government-funded childcare entitlements for all types of provider. This is known as the Local Early Years Funding Formula (LFF). Local authorities are required to consult providers and Schools Forum on annual changes to their LFF.

5.5 Central Schools Services Block

5.5.1 The Central Schools Services block (CSSB) provides funding for local authorities to carry out the statutory duties they hold for both maintained schools and academies in England. Schools Forum is required to approve the proposals for expenditure from the CSSB. Schools Forum will consider certain elements of funding that are held centrally within the funding allocations (known as centrally retained and de-delegated items) which are applied to benefit pupils across the Borough.

5.6 Timetable for Agreeing 2022/23 Distributions

5.6.1 The key dates which must be met in setting 2022/23 school budgets are shown in Table 4 below. This report is requesting authorisation for the Director of Resources, in consultation with the Director of Commissioning and Asset Management, the Cabinet Member for Children, Young People and Learning and the Cabinet Member for Finance and Resources, to undertake resource allocations to schools to meet these deadlines.

**Table 4: Key dates for 2022/23 School Budget-setting**

| Date | Activity |
|---|---|
| July 2021 | Department for Education (DfE) guidance issued for 2022/23 |
| October / November 2021 | Local consultation documents issued to stakeholders |
| 19 November 2021 | Consultation returns received and reviewed |
| 24 November 2021 | Schools Forum considers consultation response and agrees proposals for local funding allocation formula to individual schools, de-delegated and centrally retained budgets and any transfers between funding blocks |
| December 2021 / January 2022 | Local Government Finance Settlement announced including school funding amounts |
| January 2022 | Additional Schools Forum meeting (if required) |
| 21 January 2022 | Deadline for submission of final local School Allocations to DfE (the Authority Proforma Tool) |
| 28 February 2022 | Deadline for confirmation of schools' budget shares to maintained schools (in North Tyneside the intention is to issue in advance of this deadline) |

## 6. Cabinet's initial Budget proposals for the 2022-2027 Investment Plan

6.1 Background

6.1.1 Capital investment generally relates to spending on physical assets that have a useful life of more than one year. This can be new assets, improvements to existing assets, or loans to third parties for a capital purpose.

Investment of this nature plays an important role in ensuring the Authority meets its health and safety responsibilities, it also plays an important role in improving economic opportunities across all parts of the Borough. Whilst some investment directly contributes to economic development, all has an indirect impact by providing stimulus to the economy, creating employment opportunities, supporting skills and development or contributing to confidence.

6.1.2 A Capital Investment Strategy has been developed to help support the delivery of capital investment and ensure that the investment programme builds on previous success, with a strong focus on delivery of the Our North Tyneside Plan outcomes and linking to the Our Ambition for North Tyneside. The Strategy also provides a framework to enable projects to be developed with the aim of helping to deliver revenue savings to assist the Authority in managing the financial pressure it faces. The Capital Investment Strategy is attached as Appendix B(iv).

The 2021-2026 Investment Plan totalling £245.570m was approved by Council on 8 February 2021. Delivery of projects within the plan and progress to date has been reported to Cabinet as part of the bi-monthly Financial Management reports. Reprogramming of £13.469m has been identified as part of the process and this spend is now included in the proposed 2022-27 Investment Plan.

The following adjustments are included in the draft plan:

- Addition of £0.250m for 2022/23 and £1.000m pa (total £4.250m 2022-27) to reflect the initial work underway in relation to Carbon reduction targets and enable progress to be made on this key priority;
- A new year 5 (2026/27) has been added to reflect rolling programme projects such as, sustained investment in additional Highways Maintenance, Asset Planned Maintenance, and ICT refresh; and
- In view of the outcome of a number of building condition surveys, an additional £0.500m pa (total 2022-27 additional £2.000m) has been added to reflect identified requirements.

All proposals for capital investment follow a structured gateway process, and are challenged by Members and senior officers, from the initial ideas stage, through the delivery stage and finally to post implementation. All proposals are considered in terms of their strategic alignment with the Our North Tyneside Plan, Ambition for North Tyneside and the updated Efficiency Programme.

The Investment Programme Board (IPB) meets on a monthly basis and, as part of its monthly meetings, receives an update on all on-going projects included in the approved Investment Plan (currently 2021-2026).

Table 5 below shows a summary of the initial draft 2022-2027 Capital Investment Plan.

**Table 5: Summary of the draft Capital Investment Plan 2022-2027**

| Spend | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | Total |
|---|---|---|---|---|---|---|
| | £000's | £000's | £000's | £000's | £000's | £000's |
| General Fund | 28,576 | 22,494 | 19,178 | 15,435 | 15,812 | 101,495 |
| Housing | 26,724 | 28,100 | 30,651 | 32,126 | 34,046 | 151,647 |
| | | | | | | |
| **Total** | **55,300** | **50,594** | **49,829** | **47,561** | **49,858** | **253,142** |

A schedule of the individual projects included in the draft plan is attached as Appendix B(i). Where applicable, confirmation of external funding will also be required before projects are able to proceed.

The estimated revenue implications of these schemes have been included in the revenue budget.

**Table 6: Summary of Financing 2022-27**

| Spend | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | Total |
|---|---|---|---|---|---|---|
| | £000's | £000's | £000's | £000's | £000's | £000's |
| **General Fund** | | | | | | |
| **Council Contribution:** | | | | | | |
| Unsupported Borrowing | 12,956 | 12,546 | 11,776 | 8,223 | 8,600 | 54,101 |
| Capital Receipts | 254 | 0 | 0 | 0 | 0 | 254 |
| Revenue contribution | 0 | 0 | 0 | 0 | 0 | 0 |
| | 13,210 | 12,546 | 11,776 | 8,223 | 8,600 | 54,355 |
| Grants & Contributions | 15,366 | 9,948 | 7,402 | 7,212 | 7,212 | 47,140 |
| **Total General Fund Resources** | **28,576** | **22,494** | **19,178** | **15,435** | **15,812** | **101,495** |
| | | | | | | |
| **Housing – HRA** | | | | | | |
| Capital Receipts | 1,572 | 1,584 | 1,700 | 1,851 | 1,956 | 8,663 |
| Revenue Contribution | 10,281 | 10,185 | 12,632 | 13,160 | 16,092 | 62,350 |
| Major Repairs Reserve | 14,501 | 15,916 | 16,189 | 17,035 | 15,868 | 79,509 |
| Other contributions | 370 | 415 | 130 | 80 | 130 | 1,125 |
| **Total Housing HRA Resources** | **26,724** | **28,100** | **30,651** | **32,126** | **34,046** | **151,647** |
| | | | | | | |
| **TOTAL RESOURCES** | **55,300** | **50,594** | **49,829** | **47,561** | **49,858** | **253,142** |

6.1.3 The initial draft 2022-2027 Investment Plan for the General Fund includes expenditure of £28.576m in 2022/23. Of this expenditure, £15.366m (54%) is funded through grants and other external contributions.

General Fund receipts (£0.254m), already received, and Housing capital receipts of £8.663m have been assumed in the financing of housing projects within the draft Plan.

Across the life of the draft Plan, unsupported borrowing totals £54.101m, with £12.956m planned for 2022/23. Of this, £2.897m relates to invest to save projects and projects that cover the cost of borrowing through recharges namely, Streetlighting LED and Vehicle Replacement. The cost of borrowing is included within the General Fund Revenue Budget and Financial Plan.

Work is ongoing to finalise these draft proposals. There are currently a number of projects progressing through the investment gateway process where bids have been made for external funding. It is planned that these projects will be added to the Plan once funding is secured; no spend will be committed until funding is secured.

6.2 <u>Capital Allocations 2022/23</u>

6.2.1 A number of capital allocations (grants) are announced by the Government as part of the Local Government Finance Settlement. These include Education Funding (Capital Maintenance and Devolved Formula Capital) (Department for Education), the Local Transport Plan (Department for the Environment) and Disabled Facilities Grants (through the Better Care Fund). Figures for 2022/23 have not yet been announced and therefore indicative figures, based on previous allocations, have been included in the draft Plan. As soon as actual allocations are announced, these figures will be updated and included in subsequent reports.

6.3 <u>Annual Minimum Revenue Provision (MRP)</u>

6.3.1 The Capital Finance Regulations require full Council to agree an annual policy for the Minimum Revenue Provision (MRP), the amount that is set aside to provide for the prepayment of debt (principal repayment). The Regulations require the Authority to determine an amount of MRP which it considers to be prudent. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

There are no changes proposed to the existing policy. The 2022/23 policy is set out in full below:

(a) Existing assets pre 1 April 2007: MRP will be charged at 2% per annum;
(b) Supported borrowing: MRP will be charged at 2%;
(c) Unsupported borrowing: for all assets financed by unsupported borrowing, MRP will be charged over the estimated life of the assets. This may include assets financed through PFI schemes and finance leases;
(d) Lease transactions treated as “on balance sheet”: an element of the annual charge to the Authority for the lease will be treated as repayment of capital (i.e. repayment of principal and interest). The principal element is effectively the MRP charge for the year. This MRP charge will be equal to the element of the rent/service charge that goes to write down the balance sheet liability; and
(e) Loans made for capital purposes for which borrowing is taken out: MRP will be based on the actual principal repayment schedule relating to the loan provided.

## 6.4 Prudential Indicators

6.4.1 The Local Government Act 2003 requires authorities to comply with the ‘CIPFA Prudential Code for Capital Finance in Local Authorities’. The Prudential Code requires authorities to develop a set of Prudential Indicators for capital as laid out in the Code.

The proposed indicators for 2022-26 have been prepared using the current (2017) Code and are attached as Appendix B(iii). There has been a recent consultation on changes to this code which if adopted before the budget is set will be reflected in the final indicators presented for approval. There is not expected to be a significant impact for the Authority.

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## 7. 2021/22 Treasury Management

### 7.1 Background

7.1.1 The Authority is required to operate a balanced Budget, which broadly means that cash raised during the year will meet cash expenditure. A key part of the treasury management operation is to ensure that the cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Authority's low risk policy, providing adequate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Authority's (investment) plans. These capital plans provide a guide to the borrowing needs of the Authority, essentially the longer-term cash flow planning to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available Budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of any sums invested, as a loss of principal will in effect result in a loss to the General Fund balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day-to-day treasury management activities.

7.1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that an organisation's treasury management policy statement adopts the following form of words to define the policies and objectives of its treasury management activities:

**1** This organisation defines its treasury management activities as:
The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

**2** This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

**3** This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement. Non-Treasury Investments are reported as part of this update. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure in an asset.

7.1.3 There are no policy changes to the Treasury Management Strategy Statement or Annual Investment Strategy which was last approved at Council on 18 February 2021; the latest Treasury Management Strategy Statement and Annual Investment Strategy have been included as Appendix C. The details in this report update the current Treasury position in the light of the updated economic position and budgetary changes already approved.

7.1.4 Since 1 April 2021 there has been no instances of a material exposure in excess of credit limits as per the Treasury Management Strategy Statement and Annual Investment Statement Credit Criteria.

7.2 Treasury Management Reporting

7.2.1 In line with best practice, the Treasury Strategy including an Investment Strategy is considered as part of the Budget-setting process.

The Treasury Management Strategy (how investments and borrowings are to be organised), including treasury indicators and an investment strategy.

Prudential indicators are covered earlier in this report, with detailed indicators within Appendix B(iii).

There are two other main reports each year, which incorporate a variety of policies, estimates and actuals which are approved by Cabinet. These reports are:

- **A Mid-Year Treasury Management Report**
  This will update Members with the progress of the capital position, amending prudential indicators as necessary, and indicate whether the Authority is meeting the strategy or whether any policies require revision; and

- **An Annual Treasury Report**
  This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the Strategy.

7.3 Current Treasury Portfolio Position

7.3.1 The Authority's debt and investment position as at 30 September 2021 is set out in Table 7 below:

**Table 7: Current Treasury Portfolio Position as at 30 September 2021**

| | Principal Outstanding | Average Rate |
|---|---|---|
| | £m | % |
| **Fixed Rate Funding** | | |
| PWLB* | 249.250 | 3.57 |
| PWLB – (HRA Self-Financing) | 128.193 | 3.49 |
| Market Loans | 20.000 | 4.35 |
| Temp Loans** | 5.000 | 0.89 |
| **Total External Debt** | **402.443** | |
| *Less* **Investments** | | |
| (UK) DMO*** | 40.000 | 0.01 |
| Other Local Authorities | 25.000 | 0.10 |
| Bank Deposits | 7.258 | 0.01 |
| **Total Investments** | **72.258** | |
| | | |
| **Net Position** | **330.185** | |

* Public Works Loan Board
** Loans from other local authorities
*** Debt Management Office

7.4 Prospects for Interest Rates

7.4.1 The Authority has appointed Link Asset Services as its external treasury advisor; part of their service is to assist the Authority to formulate a view on interest rates. Table 8 below sets out Link Asset Services' professional view of interest rates:

**Table 8: Link Asset Services' forecast interest rates – 29th September 2021**

| Link Group Interest Rate View 29.9.21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|---|---|
| BANK RATE | 0.10 | 0.10 | 0.25 | 0.25 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 |
| 3 month ave earnings | 0.10 | 0.10 | 0.20 | 0.20 | 0.30 | 0.40 | 0.50 | 0.50 | 0.60 | 0.70 |
| 6 month ave earnings | 0.20 | 0.20 | 0.30 | 0.30 | 0.40 | 0.50 | 0.60 | 0.60 | 0.70 | 0.80 |
| 12 month ave earnings | 0.30 | 0.40 | 0.50 | 0.50 | 0.50 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 |
| 5 yr PWLB | 1.40 | 1.40 | 1.50 | 1.50 | 1.60 | 1.60 | 1.60 | 1.70 | 1.70 | 1.70 |
| 10 yr PWLB | 1.80 | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 | 2.10 |
| 25 yr PWLB | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 | 2.40 | 2.40 | 2.50 | 2.50 | 2.60 |
| 50 yr PWLB | 2.00 | 2.00 | 2.10 | 2.20 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 |

7.4.2 Interest rates have been at historical lows during the pandemic, however following the UK removing COVID related restrictions the economy has seen significant inflationary pressure. Demand-led price increases, the continued energy price inflation as well as pent-up-demand has put pressure on the Bank of England to use monetary policy tools to manage inflationary pressure.

Inflation is forecast to increase above the 2% target to 4% or even 5% temporarily over

the next 3 years. As such Markets have forecast a base rate increase in Q1 2022. The Bank of England remain cautions and maintain a watch and see position with one eye on data as it comes available the other on ensuring economic recovery is not stifled.
It is likely inflation will remain above 2% for the near

7.4.3 Investment and borrowing rates currently remain low, however it is likely for rates to pick up as base rate increases. Uncertainty remains with a watching brief on delta variants which could cause a reversal in current policy and return to lower for longer rate environment.

7.5 <u>Economic Update (Provided by Link)</u>

7.5.1 At the September Monetary Policy Committee (MPC) meeting, the MPC voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

7.5.2 There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, the MPC had been prepared to look through a temporary spike in inflation.

7.5.3 In August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

7.5.4 Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

7.5.5 The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

- Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
- Raising Bank Rate to 0.50% before starting on reducing its holdings.
- Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
- Once Bank Rate had risen to at least 1%, it would start selling its holdings.

7.5.6 COVID-19 vaccines have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

7.6 Prudential Code and Treasury Management Code Consultations

7.6.1 In September 2021 CIPFA released the stage 2 consultation in relation to Capital Finance in Local Authorities. The proposed summary of the consultation is available on request from the Treasury Management Officer.

The budget proposals and MTFP documents have been developed based on the current Code's, however the report is cognisant of CIPFAs latest Prudential code and Treasury Management consultations and ensure the Authority's plans do not conflict with the code consultations proposals.

7.6.2 The main purpose of the latest Prudential code consultation is to address the risks associated with commercial property acquisitions (debt-for-yield) following comment from the Public Accounts Committee and National Audit Office reports.

7.6.3 Notwithstanding the current Code consultations the Authority does not envisage any activities, current or planned, which may conflict with the latest proposals.

## 7.7 Non-Treasury Investments

7.7.1 The definition of an investment covers all the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit, for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The definition of an investment also covers loans made by a local authority to one of its wholly owned companies or associates, to a joint venture, or to a third party.

7.7.2 The Authority recognises that investments in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios. It is recognised that the risk appetite for these activities may differ from that for treasury management. The Authority maintains records of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

7.7.3 At 31 March 2021, the Authority held the following investments on its balance sheet:

- Equity:

  Newcastle Airport Holding Company Ltd £7.830m (£7.272m 31/3/2020)
  North Tyneside Trading Company £9.075m (£7.568m 31/3/2020)
  LIFT Co £0m

  The shares in Newcastle Airport are held primarily for economic regeneration. The cost of the original investment was £0.235m and the shares in North Tyneside Trading Company relate to two subsidiaries. The first, amounting to £7.075m, relates to investment in affordable homes in line with the Cabinet's priorities using section 106 funding. The second, amounting to £2.000m, relates to investment in Aurora Properties (Sale) Ltd for the provision of housing for sale on the open market.

- Loans

  Aurora Properties (Sale) Ltd £5.125m (£4.000m 31/3/2020)
  Sub ordinated debt – Dudley and Shiremoor JSC £0.160m ((£0.160m 31/3/2020)
  Sub ordinated debt – Whitley Bay JSC £0.110m ((£0.110m 31/3/2020)

7.7.4 The current 2021/22 Capital Investment Plan includes further planned investment in the Trading Company of £5.372m (which includes £3.413m in section 106 funding). There are currently no losses expected on any of the Authority's non-treasury investments or any indications that a loss may arise. However, this position is kept under constant review as market conditions are expected to remain very volatile. Any dividends from the Trading Company for 2021/22 or over the period of the Financial Plan (2022-2026) are not expected to be material. Recharge income in respect of staff time and loans is estimated to be £0.380m for 2021/22 and approximately £1.200m over the period of the Financial Plan (2022-2026).

## 8. Provisional Statement to Council by the Chief Finance Officer

8.1 Background

8.1.1 The Local Government Act 2003 imposes duties on local authorities in relation to Budget setting. The Act requires that when an authority is deciding its annual Budget and Council Tax level, Elected Members and officers must take into account a report from the Chief Finance Officer on the robustness of the Budget and the adequacy of the Authority's financial reserves.

The Government has a back-up power to impose a minimum level of reserves on any authority that it considers is making inadequate provisions.

In making the statement, the Chief Finance Officer necessarily places reliance on information provided to her by other officers of the Authority as part of the Financial Planning and Budget process. Due cognisance to guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in relation to the adequacy of reserves and balances will also be taken into account.

The intention would be to make a full Statement as part of the report to the Council meeting on 17 February 2022, when all outstanding information should be available.

8.1.2 The 2022/23 Budget needs to be prepared with reference to the Financial Management Code (the FM Code) published by CIPFA. The FM Code provides guidance about the principles of good and sustainable financial management and requires authorities to demonstrate that processes are in place which satisfy these principles. It identifies risks to financial sustainability and sets out details of a framework of assurance which reflects existing successful practices across the sector. In addition, the Code establishes explicit standards of financial management and highlights that compliance with these is the collective responsibility of Elected Members, the Chief Finance Officer and the wider Senior Leadership Team. Full compliance with the FM Code is required from the 2021/22 Budget and further details of how this has been achieved will be set out in the February Cabinet report as appropriate.

8.2 Robustness of Estimates

8.2.1 In assessing the robustness of estimates, the Chief Finance Officer has considered the following issues*:*

- The general financial standing of the Authority;
- The underlying Budget assumptions from the Financial Strategy;
- Future Budget pressures and growth proposals, including the impact of prudential borrowing for the 2022-2027 Capital Investment Plan;
- The adequacy of the budget monitoring and financial reporting arrangements in place;
- The adequacy of the Authority's internal control systems, relying on the Assurance Statements provided as part of the Annual Governance Statement for the 2020/21 Statement of Accounts, and
- The adequacy of unearmarked and earmarked reserves to cover any potential financial risks faced by the Authority.

The level of contingencies has been increased to £6.368m as recognition of the risks associated with inflation and delivery of efficiencies. This will continue to be reviewed as these are initial Budget proposals which will be finalised by Cabinet once consultation is concluded and the final Local Government Finance Settlement is known.

8.2.2 The Cabinet is aware it must keep under review its Medium-Term Financial Strategy and four-year Financial Plan, in the context of the 2021-2025 Our North Tyneside Plan and known key financial risks. Future pressures need to be considered and the Authority should not take 2022/23 in isolation to future years' needs and pressures. Each year's Budget must continue to be considered within the context of the four-year Financial Plan, the four-year Investment Plan, the Financial Strategy and the global economic position prevailing at the time.

To ensure that the Authority continues to keep within its approved Budget and the financial integrity of the Authority is maintained, it is essential that Budget holder responsibility and accountability continues to be recognized as set down in the Authority's Financial Regulations and in the roles and responsibilities section of the Authority's Budget Management Handbook.

8.3 <u>Capital Investment Strategy</u>

8.3.1 In line with the 2017 'Consultation on Proposed Changes to the Prudential Code's' new requirement that the Chief Finance Officer of an Authority should report explicitly on the 'deliverability, affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions', the Authority has ensured that that all projects within the 2022-2027 Investment Plan follow the full gateway and governance procedure prior to inclusion on the Plan which ensures the deliverability, affordability and risk associated with each decision is fully understood prior to any decisions being made.

In terms of the overall investment position of the Authority, as set out above, a draft Capital Investment Strategy has been developed to help support the delivery of capital investment and ensure that the investment programme, builds on previous success, with a strong focus on delivery of the Council Plan outcomes.

8.4 <u>Adequacy of Financial Reserves</u>

8.4.1 <u>General Fund</u>

The level of un-ringfenced reserves remains of concern to the CFO in this ongoing period of uncertainty. It expected that over the course of 2022/23 the Change Reserve will reduce as planned investment in projects to support better management of demand are implemented. This year's Financial Management reports to Cabinet highlight areas of on-going financial pressure resulting from of the impact of COVID-19 Pandemic on service provision. The current financial pressure is at a level above the additional funding provided by Central Government, this currently stands at £4.161m. Some of this financial pressure is expected to continue into at least 2022/23 and possibly beyond. There is no indication that Central Government will continue to provide direct financial support for the ongoing impact of COVID-19 Pandemic in Local Government therefore £2.000m of the Strategic Reserve will be transferred to a Covid Reserve to manage this risk which will be closely monitored throughout 2022/23.

These actions together with the requirement to balance the 2021/22 in-year budget may result in the level of the Strategic Reserve falling below the minimum planned level of £10.000m over the life of the Financial Plan. Based on this included in the initial budget proposals is corrective action to restore the Strategic Reserve to the agreed level.

Table 9 below shows the reserves as at the 31 March 2021 and the projected reserve levels over the period of the Financial Plan:

**Table 9: Reserves and Balances as at 31 March 20201 and from 2021/22-2025/26**

| Reserves and balances | Opening Bal. | Projected Closing Balances | | | | |
|---|---|---|---|---|---|---|
| | 2021/22 £000s | 2021/22 £000s | 2022/23 £000s | 2023/24 £000s | 2024/25 £000s | 2025/26 £000s |
| **Reserves** | | | | | | |
| General Fund ringfenced | 22.124 | 20.734 | 19.242 | 18.659 | 18.297 | 13.839 |
| General Fund unringfenced | 20.810 | 14.548 | 12.348 | 11.848 | 11.348 | 10.848 |
| General Fund grants | 42.254 | 2.409 | 1.660 | 1.458 | 1.176 | 0.895 |
| Dedicated Schools Grant | (7.932) | (8.326) | (13.000) | (11.000) | (9.000) | (8.000) |
| HRA | 14.556 | 14.642 | 14.464 | 14.159 | 14.075 | 13.976 |
| **Reserves Sub Total** | **91.811** | **44.007** | **34.714** | **35.125** | **35.896** | **31.558** |
| **Balances** | | | | | | |
| General Fund Balances | 7.000 | 7.000 | 7.000 | 7.000 | 7.000 | 7.000 |
| School Balances | 3.721 | 2.221 | 0.721 | (0.779) | (2.279) | (3.779) |
| Housing Revenue Account Balances | 5.002 | 3.012 | 2.633 | 2.705 | 2.667 | 2.661 |
| **Balances Sub Total** | **15.722** | **12.233** | **10.354** | **8.926** | **7.388** | **5.882** |
| **Grand Total Reserves and Balances** | **107.533** | **56.239** | **45.068** | **44.050** | **43.283** | **37.440** |

8.5 Housing Revenue Account (HRA)

8.5.1 Table 10 below sets out the movement in reserves of the HRA. The Budget proposals ensure that a minimum of £2.500m is retained in HRA revenue balances each financial year covering the two years of the Financial Plan to ensure some measure of contingency and financial stability. The proposals, as they currently stand, also balance the Plan over the longer 30-year period, which is what the Government requires authorities to demonstrate as part of the self-financing proposals.

**Table 10: 2022–2026 Housing Revenue Account Balances**

| HRA Forecast Movement on Reserves | 2021/22 £m | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m |
|---|---|---|---|---|---|
| Opening Reserve Balance | (5.002) | (3.440) | (3.069) | (2.837) | (2.567) |
| Contributions (to)/from balances | 1.562 | 0.371 | 0.232 | 0.270 | (0.059) |
| **Predicted Reserve Balance Carried Forward** | **(3.440)** | **(3.069)** | **(2.837)** | **(2.567)** | **(2.626)** |

8.5.2 Guidance on local authority reserves and balances is given in CIPFA's Local Authority Accounting Panel (LAAP) Bulletin 99. This states that *"Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option",* and so the proposed 2022/23 Budget does not contradict the issued guidance. The Bulletin does then go on to say *that "It is not normally prudent for reserves to be deployed to finance current expenditure"*. The 2022-2026 Financial Plan has been developed so that ongoing revenue expenditure is aligned to annual income with no long-term reliance on reserves.

## 9. Overall Financial Risk Assessment

9.1.1 Financial risks are driven by changes to Government policy and the national financial climate, issues arising throughout the year and reported as part of the financial management reporting process and those risks highlighted as part of the Authority's risk management procedures and monitored through the Authority's risk registers. As part of the monitoring process the Authority's Corporate Risk Register is monitored twice yearly by Cabinet.

9.2 <u>Key Financial Risks</u>

9.2.1 The key financial risks for the Authority (including the HRA), which have been considered as part of the Financial Planning and Budget process, are set out in the table below along with mitigating actions:

**Table 11: Key Financial Risks and mitigating actions**

| Potential Risk | Initial Response |
|---|---|
| There is a risk that the levels of savings and income the Authority has included in the Budget proposals are not fully deliverable. | A robust challenge process has taken place to align proposals to the Efficiency Statement and how this enables the Authority to deliver its Efficiency Programme. This programme will then be monitored throughout the year to identify any areas which are not delivering savings as planned so corrective action can be taken. |
| There is a risk that if the Efficiency Programme is not successfully implemented the Authority may be unable to deliver improved services and meet the increased demand on the Authority's services within reducing resources. This could have the financial impact of the Authority not delivering on its Budget. | An overall Budget Proposal Document and Terms of Reference are in place for all existing and new Efficiency Programme projects. This spans all service redesign projects<br>Monthly Updates to SLT are provided as part of the in-year financial management process. Refreshed Governance will be put in place to monitor delivery and benefits realisation. |
| There is a risk that the assumptions that have been made based on the indicative settlement up to and including 2023/24 may be wrong, resulting in changes to the current targeted savings by 2023/24, for the General fund and for the HRA, which will be considered by Cabinet in January 2020. This includes any assumptions with regards to the ongoing impacts of the COVID 19 Pandemic. | The Authority has demonstrated robust response to financial management actions if the assumptions that have been made prove to be incorrect. The Authority continues to work closely with national, regional and sub-regional financial networks to help ensure that it is informed and aware of any national developments. Being involved in the consultation process enables any issues or concerns specific to NTC to be highlighted before final decisions are made. |

| | |
|---|---|
| | The announcement of the Spending Review 2021 clearly gives more information regarding spending plans and financial support to Local Government for 2022/23. More detail will be set out in the Provisional Settlement expected early/mid December 2021. |
| There is a risk that, because of financial pressures within the Clinical Commissioning Group (CCG), the Authority does not receive a full transfer of funding from health to social care and the continuation of funding for existing services funded through the Better Care Fund (BCF) and S256 agreements. This would have a significant financial impact to the Authority. This risk is seen to increase with the changes to the NHS and the move to the Integrated Care System | The Policy and Framework and Guidance for the BCF specifically requires that funding transferred for social care should, as a minimum, be at the equivalent level as that of 2016/17 plus inflation. The BCF contribution from the CCG has been agreed for 2021/22 and is in line with the nationally required minimum. The BCF plan for 2021/22 has been agreed by the Health and Wellbeing Board and has been submitted. An updated s75 Agreement will be prepared once the BCF Plan has received approval from the national bodies. |
| There is a risk that not all growth pressures have been identified in the 2021/22 proposed Budget. | Detailed proposals have been put forward by each Head of Service and challenged by the Senior Leadership Team, Cabinet Members and the Elected Mayor. |
| There is a risk that demand-led pressures exceed Budget provision | Demand-led pressures continue in areas such as Adults and Children's Social Care and the impact of the Living Wage on care providers (and the price for services the Authority then has to pay) have been taken into consideration as part of these initial Budget proposals and continue to be closely monitored. |
| There is a risk that specific factors arising during 2021/22 have not been fully taken into account when preparing the 2022/23 Budget. | The 2021/22 financial position is monitored through bi-monthly reporting to Cabinet and monthly reporting to Senior Leadership Team. This process ensures that factors arising during the year are highlighted. |
| There is a risk that the in-year pressures being reported through the 2021/22 financial management process impact on the deliverability of the 2022/23 Budget. | As at 30 September 2021, a pressure of £45.240m was reported against the 2020/21 Budget this included the impact of COVID-19 Pandemic. Core Business as usual had a pressure of £1.081m, which is expected to improve as the Authority progresses to year end. Unfunded Covid pressures |

| | |
|---|---|
| | currently stand at £4.161m at the end of September. As assessment of the ongoing impact and risk that those Covid cost pressures and income losses may continue into 2022/23 has been undertaken and considered in light of the levels of reserves. |
| There is a risk that the contingency provision included in the Financial Plan for 2021/22 is insufficient. | The review of the base Budget and the reflection of the 2021/22 pressures into 2022/23 have been considered as part of the Financial planning process and will be updated once the Provisional Local Government Finance Settlement is announced. The contingency budget has been increased in light of current financial risks. |
| There is a risk that there are insufficient levels of reserves and balances. | A full review of reserves and balances is undertaken on a regular basis as part of both the in-year monitoring process and planning process. |
| There is a risk that the Authority will be unable to protect its housing assets and services to tenants as a consequence of reduced income to the Housing Revenue Account. Government policy on welfare reform is resulting in a number of direct challenges to rent collection. | The Budget-setting process incorporates a review of the HRA business plan to reflect the changes. The cost and quantity of work within the 30-year Capital Investment Plan is revised annually to help mitigate the impact of changes. In addition, the Financial Inclusion Strategy sets out how the Authority and its partners will support its residents to better manage their finances and maximise their income.<br>The Authority has representation on the MHCLG and CIPFA HRA working groups. This enables specific NTC issues to be raised and allows the Authority to comment and influence change on HRA regulation. |
| There is a risk that there may be a significant financial impact on school resources if the number of schools requesting deficit continues to rise at its current rate.<br>This risk is currently driven by the number of surplus places at secondary schools. | The school deficit has been identified as a priority for the Authority and headteachers and governing bodies. A programme of work has been identified, working with schools to improve the schools' deficit position. This will highlight the work that is required, and through working with the schools a number of initiatives will be identified and progressed. The authority has created a reserve to begin to address this risk. |